



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

**DEPARTMENT OF
TELECOMMUNICATIONS & ENERGY**

ONE SOUTH STATION

Boston, MA 02110
(617) 305-3500

JANE SWIFT
GOVERNOR

JENNIFER DAVIS CAREY
DIRECTOR OF CONSUMER
AFFAIRS
AND BUSINESS REGULATION

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COMMISSIONER

June 28, 2002

Robert N. Werlin
Cheryl M. Kimball
Keegan, Werlin & Pabian
21 Custom House Street
Boston, Massachusetts 02110

Richard A. Visconti
Patricia J. Crowe
KeySpan Energy Delivery
One Beacon Street
Boston, MA 02108

RE: Petition of KeySpan Energy Delivery New England for Authorization and Approval to
Revise Rate Tariffs Effective July 1, 2002, D.T.E. 02-32

Dear Mssrs. Werlin and Visconti and Mmes. Kimball and Crowe:

On May 10, 2002, KeySpan Energy Delivery New England ("KeySpan" or "Company") filed a petition with the Department of Telecommunications and Energy ("Department") for approval to revise rate tariffs effective July 1, 2002, for its Massachusetts gas companies: Boston Gas Company, Colonial Gas Company, and Essex Gas Company (collectively "the Companies"). The Company intends to convert its current customer billing and information system used in Massachusetts to the system currently used by the Company in New York City. KeySpan proposes to lower its rates to prevent the Companies from collecting increased revenues as a result of the change in the method of billing.

The Company claims that the proposed rates are designed to maintain revenue neutrality for each of the Companies under the new billing system. In particular, the Company proposes

to reduce the customer charges for all rate classes, keep the headblock charges of all rate classes at the current levels and reduce the tailblock charges.

KeySpan states that the conversion to the billing system used in New York City will enable the Company to have a standardized bill-calculation method and uniform bill format, thereby, according to KeySpan, ensuring that all customers are billed accurately, efficiently and consistently (Company Letter of May 10, 2002, at 1). KeySpan asserts that integrating Massachusetts into the system used in New York will provide long-term future efficiencies to the Company and that the elimination of redundant systems will reduce the Company's costs of providing service to each customer (Tr. at 8-10; Company Brief at 9).¹

The Department docketed the filing as D.T.E. 02-32. The Attorney General intervened pursuant to G. L. c. 12, § 11E. Pursuant to notice duly issued on May 24, 2002, the Department conducted public and evidentiary hearings at the Department's offices on June 12, 2002. In support of its petition, the Company offered the testimony of Robert Ponticelli, Manager of Customer Accounting and Ann Leary, Manager of Rates. On June 21, 2002, the Attorney General submitted Comments. On June 24, 2002, the Company submitted a Brief in support of its petition.

After thorough review, the Department notes that under current rates each of the Companies would over-collect base rate revenues if the new billing and customer information system is implemented. The Department finds that the Company's proposal to reduce the customer charges, keep the headblock charges at the current levels, and reduce the tailblock charges results in revenue neutrality for each of the Companies based on 2001 revenues adjusted for normal weather. The Attorney General recommends approval of the proposed rates and supports the Company's efforts to reduce rates for customers through merger savings (Attorney General Comments at 5).² The Department finds that such proposed revisions would result in just and reasonable rates.³

The Attorney General argues that the Department should require the Company to recalculate the revenue impact of the new billing method and refund to customers any increase, but absorb any decrease in revenue. The Department rejects the Attorney General's proposal

¹ The Company states that the cost of the system conversion is approximately \$30 million and the Company anticipates an annual savings of approximately \$5 million (Tr. at 32).

² The Attorney General contends that the Department should have broadened its inquiry and investigated the new customer billing and information system (Attorney General Comments at 2, fn. 1). The Attorney General, however, acknowledges that the Company is not seeking approval to change its billing system and that the scope of this investigation does not include such change in the billing system (*id.* at 1).

³ With the exception of the possible impact on customers' understanding of the new billing system, the Department will not address issues related to the new customer billing and information system.

because it is inconsistent with the Department precedent regarding the treatment of base rates. Retroactive adjustments to prior approved rates may not be awarded absent specific statutory authorization (See Company Brief at 12 citing *Lowell Gas Co. v. Attorney Gen.*, 377 Mass. 37, 45 (1979); *Boston Edison Co. v. Department of Pub. Utils.*, 375 Mass. 1, 50, cert. denied, 439 U.S. 921 (1978); *Metropolitan Dist. Comm'n v. Department of Pub. Utils.*, 352 Mass. 18, 26 (1967)).

The Attorney General supports the Company's efforts to ensure that changes in staffing levels do not erode service quality. The Department notes that the existing service quality plan of each of the Companies addresses staffing levels. The proper venue for addressing staffing levels is a service quality proceeding.

The Department notes that new billing method would be unique in Massachusetts. To prepare customers to understand the new billing method and bill format, the Company states that it is conducting intensive training for all personnel who work in the customer-service areas so that billing changes can be accurately and expeditiously explained to customers (Company Brief at 10, citing Exh. KEDNE- 1, at 13; Tr. 95-100). Further, the Company has stated that it will work closely with the Department's Consumer Division in the design of the bill insert that will provide customers with details about the system conversion and the changes that customers can expect on their bill presentation (Company Brief at 10, citing Exh. KEDNE-1 at 12; Tr. at 100-102). The Company also stated that it will minimize customer terminations for the first 30 days after the system conversion to provide customers additional time to resolve any billing questions that may arise under the new billing method (Company Brief at 10, Exh. KEDNE-1 at 13).

The Company indicated that the new system could be modified to develop bills that include information specific to Massachusetts (Tr. at 77-78). The Department directs the Company to work with the Consumer Division in designing a bill format so that, as soon as practicable, a daily customer charge and tariff rate information appear on the bills. In this manner, customers would be able to readily understand and calculate their bills.⁴

⁴ Under the Company's proposal, it would not be immediately apparent to the customer why the customer charge varies from month to month. A customer might interpret such variations as resulting from changes in rate tariffs. More specifically, the customer charge and block break that will appear on a bill may not match exactly the customer charge and block break that appear in the applicable rate tariff.

Accordingly, after due notice, hearing and consideration, it is hereby ORDERED that: the Boston Gas Company tariffs M.D.T.E. Nos. 1193 through 1208; Colonial Gas Company (Lowell Division) tariffs M.D.T.E. Nos. 3 and 292 through 304; and Colonial Gas Company (Cape Division) tariffs M.D.T.E. Nos. 296 through 309 filed by Keyspan Energy Delivery New England on May 10, 2002 to become effective July 1, 2002; and Essex Gas Company tariffs M.D.T.E. Nos. 350 through 362, filed by Keyspan Energy Delivery New England on May 23, 2002 to become effective July 1, 2002, be and hereby are ALLOWED. Keyspan is further ordered to comply with all other orders and directives contained herein.

By the Commission,

Paul B. Vasington, Chairman

James Connelly, Commissioner

W. Robert Keating, Commissioner

Eugene J. Sullivan, Jr. Commissioner

DISSENTING OPINION OF DEIRDRE K. MANNING, COMMISSIONER

I agree with the majority that consolidating business systems is important. Innovation and economies of scale brought about by mergers will benefit ratepayers over the long term. However, out-of-state companies must be mindful of the effect changes of any process will have on Massachusetts' consumers early, and make appropriate adjustments. Therefore, I dissent from the majority opinion allowing KeySpan to reduce its rates and use the New York billing system for Massachusetts customers. The billing system will cause unnecessary customer confusion and is not more accurate than the current system, as the Company argues.

Under the new system, 66 percent of bills will be prorated on a monthly basis (RR-DTE-2).⁵ Currently, only five percent of bills in Massachusetts are prorated (id.). This proration primarily occurs when a customer initiates or cancels service on a date other than the close of the billing period. Because 66 percent of bills will be prorated, customers in Massachusetts will see different monthly charges and varying head and tail block quantities on their monthly bills. If these changes were price signals putting consumers on notice that reduced consumption would prevent an increase in the amount due, they might be useful. However, in this case they cause unnecessary confusion. Proration adds another step to the bill making it more complicated. Proration is also done without showing the calculation to the consumer, which means that the consumer cannot determine if he or she was billed correctly. The Company agrees that a bill the customer can calculate themselves is less confusing (Tr. at 8).

The Company argues that the New York billing system is more accurate because it bills on a daily basis. The Company's Massachusetts rates were designed for a monthly billing system and are being retrofit to accommodate the change. I do not see how a retrofitted monthly rate in a daily billing system can be more accurate than the current process. While an adjustment in rates will make the change revenue neutral to the Company, it will not be revenue neutral to all customers. Because the Company has only adjusted the tail block rate to prevent over collection, those customers who do not use enough gas on a monthly basis will not trigger the rates adjusted in the tail block, and therefore, pay more under the new proposal. While the over collection may not be significant, it shows that this system is not more accurate for Massachusetts customers. The Company also agrees that bills as they are currently calculated are accurate and equitable. (Tr. at 82).

It appears that KeySpan did not realize changes were needed for Massachusetts' consumers until the very end of a \$30 million billing conversion process. The Company claims that it cannot make appropriate changes because each month's delay will cost one million dollars. KeySpan started this process in November 2000 and informally notified the Department of proposed changes at a meeting on March 14, 2002 (Tr. at 72). Shortly

1 The Company's earlier assertion that 34 percent of the bills will be prorated was incorrect. See Tr. at 77.

thereafter, and without the benefit of running numbers through KeySpan's systems, the Department informed the Company of its concerns about the proposal -- revenue neutrality and unnecessary customer confusion. The Company addressed only one concern, the revenue over collection that would be caused by using KeySpan New York's billing system (RR-DTE-1; Exh. KEDNE-1, Att. 1-4). This meeting was held ten weeks before the initial planned cut over at the beginning of June.

The Company's approach is not consumer friendly. It appears willing to overcharge Massachusetts' consumers by going forward with the conversion if the Department does not approve the Company's method of making the New York system fit Massachusetts -- a fix that the Department was given only seven weeks to consider (Tr. at 118). The Company's offer to minimize terminations to provide customers with additional time to resolve questions that may arise under the new billing method for the first thirty days of conversion is not helpful. The first customers to receive a bill under the New York system would not be subject to shut off until after 45 days. See 220 C.M.R. § 25.02(3)(a). The Company must incorporate the requirements of the Massachusetts Billing and Termination Procedures into the New York system.

The Company could have changed the system to allow the rare instances of proration that Massachusetts' consumers currently experience, but chose not to (Tr. at 78). The Company states that a six-month delay and a cost of \$6.7 million would be the result of such a change at this late date (RR-DTE-3-1). The cost to implement this change early in the process would have been less than \$700,000.² Utility companies need to consider the impact to consumers early on in any process, and clearly KeySpan did not. KeySpan's decisions to implement this change were clearly management information system oriented and not consumer friendly. I regret that the Department did not take the opportunity to inform KeySpan New York that this type of approach is inappropriate. Giving the Company permission to implement a billing system without pro-consumer changes sends the wrong message.

Deirdre K. Manning , Commissioner

² If one backs out the one million dollar figure given earlier for each month delay, the \$6.7 million cost is reduced by \$6 million.